Briefing Paper

The Autumn Statement 2012 – Implications for Housing and Local Government

December 2012

Introduction

The Chancellor of the Exchequer George Osborne delivered his Autumn Statement to Parliament on 5th December 2012, alongside the publication of the Office for Budget Responsibility's updated forecasts for growth and borrowing.

The Government's economic strategy is focussed on reducing the deficit, restoring stability, rebalancing the economy and equipping the United Kingdom to compete in the global race. In his statement, George Osborne set out how this strategy will be maintained by taking further action in three areas: Protecting the economy; Growth; and Fairness.

However, with continued recession, falling tax revenues and continued borrowing; the government has concluded that further action is required to reduce the deficit. Rather than impose further cuts of £17billion a year, the chancellor said he had chosen to continue the austerity programme for one more year. He said:

"No decision to cut spending is ever easy… but those who object must explain whether instead they would have higher taxes, or higher borrowing or both... The government has shown that it is possible to restore sanity to the public finances while improving the quality of our public services."

He announced a Spending Review for the 'first half of next year', that would give further details of departmental spending plans for 2015/16. He stated that, by the end of 2015/16, the government would 'almost exactly' deliver on the goal to maintain a ratio of 80:20 spending cuts to tax rises.

Protecting the Economy

George Osborne told parliament that because of the ongoing impact of the financial crisis, the euro area crisis and the effect of inflation on incomes and business costs, a more subdued and uneven recovery than expected is forecast with growth weaker and inflation higher. In response, the Autumn Statement set out:

- A further £6.6billion package of savings from welfare, overseas aid and Departmental spending - funding £5.5billion of additional infrastructure investment and support for businesses;

- A spending envelope for 2015/16 consistent with the announcement in 2011 that spending for 2015/16 and 2016/17 will continue to fall at the same rate as the Spending Review 2010 period;
- Tax measures that support growth, reward work, help with the cost of living and ensure that those with the most contribute the most.

Growth

George Osborne also said that to enable the United Kingdom to compete with the new emerging economies such as China, India and Brazil, the Government is taking action to rebalance and strengthen the economy while supporting those who want to work hard and get on, including;

- Meeting the needs of businesses with a £5.5billion infrastructure package and support for long-term private investment in new roads, science investment, free schools and academies;
- A further 1% cut in the main rate of corporation tax from April 2014, to 21%;
- A significant temporary increase in the Annual Investment Allowance, from £25,000 to £250,000 for two years to support small and medium-sized businesses;
- Devolution of a greater proportion of growth-related spending to local areas from April 2015, in response to Lord Heseltine's review of economic growth;
- Creation of a £1billion Business Bank to help smaller businesses access finance and support;
- Enabling United Kingdom Export Finance to provide up to £1.5billion in loans to finance small firms' exports;
- Increased funding for United Kingdom Trade and Investments and extra support for the GREAT campaign to showcase Britain's capabilities.

Fairness

Fairness is a fundamental aspect of plans to reduce the deficit and protect the economy the Chancellor told parliament. George Osborne said that the Government will help to ensure that it pays to work, supporting pensioners and those most in need, and delivering a progressive tax and welfare system that is affordable and encourages growth, by;

- Supporting those on low and middle incomes by increasing the personal allowance by a further £235 in April 2013, taking it to £9440;
- Cancelling the 3.02 pence per litre fuel duty increase that was planned for 1st January 2013. The 2013/14 increase will be deferred to 1st September 2013 – meaning fuel duty will have been frozen for nearly two and a half years;
- From 2014/15, reducing the lifetime allowance for pension contributions from £1.5million to £1.25million and the annual allowance from £50,000 to £40,000;
- Uprating most working age benefits and tax credits by 1% for three years from April 2013 - excluding disability and carers benefits (this represents a reduction in real terms);
- Increasing the higher rate threshold for income tax by 1% rather than inflation in 2014/15 and 2015/16;
- Increasing the basic State Pension by 2.5%;
- Targeting the promoters of aggressive tax avoidance schemes and the closure of loopholes;

- Tackling offshore tax evasion by the creation of a dedicated HMRC unit, maintaining the momentum from the Government's recent agreements with Switzerland and the United States.

Economic Forecasts

Growth
- Office for Budget Responsibility adjusts growth forecast for 2012 downwards to -0.1% (previous forecast for 2012 was 0.8%).
- Office for Budgetary Responsibility says trade, not austerity, is to blame for lower growth.
- Office for Budgetary Responsibility is forecasting 1.2% growth next year, 2% in 2014, 2.3% in 2015, 2.7% in 2016 and 2.8% in 2017. All those figures have been revised down from March's forecasts (except 2017 that is a brand-new forecast).
- The 2008/09 contraction was deeper than previously thought: Gross Domestic Product shrank then by 6.3%.

Deficit
- Office for Budgetary Responsibility says the government is "on course" to meet its target of getting rid of the structural deficit over five years.
- The deficit is forecast to fall from 7.9% of Gross Domestic Product last year to 6.9% this year, then 6.1%, 5.2%, 4.2%, and 2.6% year by year, reaching 1.6% in 2017/18. (The figure for 2009/10 was 11.2%, and that for 2010/11 was 9.6%).
- The deficit has fallen by a quarter in last two years and will "continue to fall". This means a £33billion saving on interest payments compared with that predicted two years ago.

Debt
- Office for Budgetary Responsibility says the government will miss its target of getting debt falling as a percentage of Gross Domestic Product by 2015. The Chancellor stated that it will be falling by 2016/17.
- Net debt is forecast to be 74.7% of Gross Domestic Product this year, then 76.8% next year, then 79%, 79.9%, falling to 79.2% in 2016/17 and 77.3% in 2017/18. This compares with the 40% limit established as part of the sustainable investment rule between 1997 and 2008.
- Borrowing is set to fall from £108billion this year to £99billion next year, £88billion in 2014, then £73billion, then £49billion, then £31billion in 2017.

Jobs
- Since 2010, 1.2million jobs have been created in the private sector.
- Office for Budgetary Responsibility is predicting unemployment to peak at 8.3%.

Economy
- Period of austerity extended by one year to 2017/18.
- Bonds trading at yield of 1.81% instead of 3.14% two years ago.
- "It is a hard road, but we're getting there," said the Chancellor. "Turning back now would be a disaster."

While there was gloomy news for Osborne on his debt target, the Office for Budgetary Responsibility also concluded that there was a greater-than-50% chance of meeting the principal fiscal mandate to eliminate the structural deficit in five years time.

The Office for Budgetary Responsibility forecasts that the deficit will keep falling, dropping from 6.9% this year to 6.1% next year, and reaching 1.6% in 2017/18. On growth, the Office for Budgetary Responsibility is predicting an overall contraction of 0.1% for this year, with the economy set to grow by 1.2% next year, 2% in 2014 and rising year-on-year thereafter, reaching 2.8% in 2017.

According to the Office for Budgetary Responsibility, the effects of the 2008/09 downturn are deeper than initially thought and will continue to be felt for several years to come.

Government Expenditure

Departmental budgets are cut by 1% this year, and 2% next year with the National Health Service and schools exempted. Local government budgets are cut by 2% in 2014.

The share of national income spent by the state is planned to fall from 48% of Gross Domestic Product in 2009/10 to 39.5% in 2017/18.

International development spending remains at 0.7% of Gross Domestic Product. Capital investment in infrastructure totalling £5billion over two years includes £1billion for roads. The high Speed two rail link will be extended to north-west England and West Yorkshire, and London's Northern Line will be extended to Battersea. There will be investment of £600million in science, £270million for further education colleges and £1billion for schools.

Benefits

Most working age benefits - including jobseekers' allowance, employment and support allowance and income support are to be uprated by 1% for the next three years. This represents a reduction in real terms. Child benefit is to rise by 1% for two years from April 2014. The Welfare changes are intended to save £3.7billion by 2015/16.

This represents a fresh benefits squeeze. Most working age benefits, such as Jobseekers Allowance and Child Benefit, will go up by 1%, less than the rate of inflation, for the next three years. MPs are due to vote on the benefit squeeze, although Labour has yet to decide whether it will oppose the move.

Implications for Local Authorities

Local authority departmental resource budgets are not to be cut next year but will be cut by 2% the year after.

George Osborne said:

"Local government budgets are already being held down next year to deliver the freeze in council tax, so we will not seek the additional 1% savings next year – but we will look for the 2% saving the year after."

Local authorities will therefore need to look for even greater economies in 2014/15 than was originally expected.

Chief Executive of the Chartered Institute of Public Finance and Accountancy, Steve Freer said:

"The announcement of a 1% further cut in departmental budgets next year, rising to 2% in 2014/15, raises the bar for public bodies across the country. Most have long since exhausted measures which have limited impact on service delivery to the public. In many organisations the greater part of this further salami slice is likely to go straight to frontline budgets."

He added that exempting local government from next year's 1% reduction was likely to be an acknowledgement of the significant cuts already demanded of this sector and the major financial reforms due to take effect in councils in April.

Implications for Housing

George Osborne ignored calls to lift local authority borrowing caps to give them more money to invest in developing new homes.

Very little of the promised £5billion capital investment that was promised by George Osborne is looking likely to fund new affordable housing, and it's unclear whether there is any fresh money for the promised 120,000 new homes over the next three years.

Any new money for social housing development will not compensate for the two-thirds cut based on the 2010 comprehensive spending review. Since then, there has been a significant reduction in social housing starts that has contributed to growing housing waiting lists, homelessness and a generation of young adults unable to afford to leave their parents' homes.

George Osborne also used his autumn statement to continue the government's plans to reduce expenditure on work-related benefits. Many people on work-related benefits are social housing tenants or their dependants. Increases in these benefits have been capped at just 1% a year, although benefits for disabled people and carers will rise with inflation, as will state pensions.

There is much evidence that social tenants have taken the brunt of austerity since the credit crunch of 2008. With low-income households banking less than £9,000 per annum on average, they have lost at least 10% of their purchasing power since 2008, equating to a total loss in real terms of income circulating in their communities of more than £3billion over the intervening four years. This loss of purchasing power has resulted from above-inflation increases in necessities, such as food and fuel that take up disproportionate amounts of tenants' incomes.

The 1% annual increase in work-related benefits will see tenants' incomes eroded further in real terms and may bring into question the viability of many tenancies. Loss of purchasing power has to be considered alongside other reforms of welfare that will remove an estimated £2billion from tenants' pockets by 2015.

The Scottish Federation of Housing Associations Chief Executive, Dr Mary Taylor, said:

"Restricting the uprating of many working age benefits to lower than the rate of inflation to just 1% is the latest of a series of welfare cuts which will be a further blow that hits the poorest and most vulnerable in our communities the hardest. The true extent of the impact will not be felt for some time, but the risk of rising debt and arrears is all too real.

"Although it appears that housing benefit for tenants of social housing has not been affected by the limit on increases of 1%, people on low incomes including housing association tenants will still be hit hard by the budget announcement and the forthcoming introduction of Universal Credit will merge all benefits together. A reduction in overall levels of benefit for working households at a time when prices are rising and jobs are scarce, will hit people and communities that are already struggling to make ends meet."

Scotland and Wales

The increase in investment in England has led to an increase in the budgets allocated to the devolved administrations. In Scotland and Wales there have been calls for the increased resources to be substantially allocated to housing but decisions have yet to be taken.

Regarding the £394million that Scotland is to receive for building and infrastructure, the Scottish Federation of Housing Associations said that it would be urging the Scottish Government to invest in new affordable homes. Dr Mary Taylor, Chief Executive of the Scottish Federation of Housing Associations said:

"The Scottish Federation of Housing Associations will be calling on the Scottish Government to invest a large proportion of the extra £394million new capital spending that is to come to Scotland under George Osborne's announcement towards building new affordable homes - boosting the construction sector, getting people off housing waiting lists, improving health and education opportunities, and building and sustaining communities.

"The Scottish Federation of Housing Associations has a list of members with plans for approximately 1,000 houses that are currently unfunded but shovel ready for building new homes right now. The additional funds would be spent on exactly the priority that both UK and Scottish governments wish to see and would be welcomed by the construction industry.

"However welcome additional capital investment by the Scottish Government would be, the impending cuts to welfare by the UK government threaten the principal income stream for housing associations and cooperatives. We remain concerned that this will in turn undermine their ability to access funding. Consequently far fewer homes will be built.

"There is a fundamental contradiction at the heart of government policy."

Comments and Reaction

Labour Party

Shadow chief secretary to the Treasury, Rachel Reeves MP said;

"We need to see the detail (of the proposals on welfare), I just don't think it can be right to be cutting the support for those people on modest incomes and those people who through no fault of their own have lost their jobs."

Labour's shadow chancellor Ed Balls said the savings might prove to be less than expected owing to long-term unemployment. He also questioned the fairness of the changes, saying:

"What sort of government believes that you can only make low-paid working people work harder by cutting their tax credits but you only make millionaires work harder by cutting their taxes?"

Local Government Association

Councils were quick to brand the 2% cut 'unsustainable.'

Local Government Association chair Sir Merrick Cockell (Conservative) said:

"(The 2% cut) made no sense economically… Local government is one of the few parts of the public sector which actively promotes economic growth… the government must enable that role rather than implement fresh cuts which will force councils to further wind down the essential support they can provide to local economic growth."

Councillor Gerald Vernon-Jackson, leader of the Liberal Democrats in the Local Government Association, welcomed the decision to protect council budgets in the next year but said Liberal Democrat councillors would continue to lobby against the extra 2% cut.

"Rather than champion his sector and encourage it, Eric Pickles has criticised it and - as one of the first to settle the sector's cuts with George Osborne back in 2010 - has been happy to see 28% cuts to the sector, plus a further £1billion subsequently."

Among other Autumn Statement measures the Local Government Association welcomed the government's plan to fund ultra-fast broadband in twelve smaller cities across the United Kingdom.

Councillor Flick Rea, chair of the Local Government Association's Culture, Tourism and Sport Board, said:

"This announcement is a positive step towards better connecting communities in our cities… However, the government needs to focus on quickly securing the European Union's permission to release the funding under state aid rules so councils don't have long delays before they can begin roll-out schemes, as they did with the rural programme."

Chartered Institute of Housing

The Chartered Institute of Housing's Chief executive Grainia Long said:

"Housing can help the economy return to growth, but only with the right backing. I'm afraid the government has failed to fully capitalise on the momentum generated by earlier pledges to boost housing.

"While the Chancellor's promise to invest £225m to boost the construction of 50,000 new homes is welcome, it is only a small contribution compared to the scale of the problem. The country's chronic undersupply of housing continues to generate misery for hundreds of thousands of families and individuals and it is crucial that ministers start to address this. Today's autumn statement makes it clear government still hasn't recognised the scale of the crisis.

"We are also disappointed that it did not include any more details on the operation of the £10 billion loan guarantee fund announced in September.*

"Housing organisations are ready to work with the scheme, but need further detail before they can put their plans into practice. We hope the government can provide this as soon as possible."

"Analysis shows that raising borrowing caps (on local authority housing) by £7billion could support the construction of 60,000 homes over the next five years, creating 23,500 jobs a year and adding £5.6 billion to the economy. And because for every pound spent on housing and construction, 56p returns to the Exchequer through increased tax revenues, it would be a very cost-effective use of government investment."

"We are delighted that the Chancellor has announced more details of the operation of Universal Credit which we called for in our autumn statement submission."

"(The limits on increases in local housing allowances) will make living in the private rented sector even harder for families as rents pull away from benefit levels."

Cumbrian Chamber of Trade

The Cumbrian Chamber of Trade commented that;

"While we note the Chancellor's reconfirmation of £10bn in guarantees for the housing sector, he should have gone further and committed to building 100,000 new homes directly, which would deliver construction jobs, business for supply chains and local confidence."

The Third Sector

Gillian Guy, chief executive at charity Citizens Advice, said:

"At last we have some recognition that the welfare budget has been squeezed dry… Holding down benefit increases to 1% is better than a total freeze, which would have been disastrous for people on the lowest incomes already having to spend a higher proportion of their income on essentials when rents, food and heating bills are all rocketing.

"The government can't keep hitting the same people over and over again. Let's not forget, below inflation benefit increases will not just hit people who are out of work. It will also hurt working families in low paid jobs who have already been hit by wage freezes and cuts in working hours."

She said many of these people were on a "financial cliff edge".

Alison Garnham, chief executive of Child Poverty Action Group, said:

"The bottom line is that the decisions taken by the chancellor will plunge tens of thousand more children into poverty whether their parents are working, unemployed, sick or disabled."

Conclusions

The Autumn Statement has confirmed that the Coalition policy of austerity and public spending cuts will continue as the economic recession continues.

However, the government is attempting to stimulate the economy with increased budgets for capital investment funded by an increased 'squeeze' on revenue expenditure. The increase in investment in housing, however, is modest compared with the reduction in housing capital budgets that was made as part of the 2010 comprehensive spending review.

The pressure on local government budgets will continue with a further 2% reduction in 2014/15. Local authorities have already complained that the reductions in government funding combined with the Council Tax freeze are likely to make it impossible for them to continue to fund some services while some individual local authorities are saying that they are becoming financially unviable.

Pressure on welfare budgets, including housing benefits, is also continuing increasing concerns that poverty and homelessness will continue to increase.

The scale of the challenge facing local government and housing organisations to meet increased need with reduced resources has increased, is increasing and will increase further.

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